



Federal Accounting Standards Advisory Board

**RECOGNITION AND MEASUREMENT OF
ASBESTOS-RELATED CLEANUP COSTS**

Technical Bulletin 2006-1

EXPOSURE DRAFT

Written comments are requested by June 30, 2006

June 1, 2006

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

FASAB has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board’s rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, “*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance.*” The provisions of Technical Bulletins need not be applied to immaterial items.

Additional background information is available from the FASAB or its website:

- ◆ “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- ◆ “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

June 1, 2006

TO: PREPARERS, AUDITORS AND USERS OF FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Technical Bulletin entitled, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. Specific questions for your consideration appear on page 3 but you are welcome to comment on any aspect of this proposal. Whether you agree or do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by June 30, 2006.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to comesw@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Comes, Executive Director
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441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Wendy Comes
Executive Director

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Executive Summary

- I. This technical bulletin is intended to clarify the required reporting of liabilities and related expenses arising from friable and nonfriable asbestos-related cleanup costs. Standards issued by FASAB have precedence over other authoritative guidance for Federal entities. This technical bulletin supplements any relevant Federal standards, but is not a substitute for and does not take precedence over standards and interpretations issued by FASAB.
- II. If adopted, the effect of this technical bulletin would be to clarify that:
 - a. Federal entities should (1) estimate both friable and nonfriable asbestos-related cleanup costs and (2) recognize a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*, Chapter 4: Cleanup Costs; and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.
 - b. Federal entities should disclose information related to friable and nonfriable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements, consistent with SFFAS 5 and SFFAS 6.

Acronyms

CFR	Code of Federal Regulations
FAS	Financial Accounting Standard (FASB)
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation Number
GAAP	Generally Accepted Accounting Principles
IPA	Independent Public Accountant
PP&E	Property, Plant, and Equipment
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TR	Technical Release

Request for Comments

Specific questions are posed below. Respondents may offer responses to the specific questions, raise new issues, or respond generally. It is most helpful if your responses include an explanation for your position and any alternatives you propose. All responses received will be publicly available on the FASAB website and at the FASAB offices.

1. Does the guidance in paragraphs 1 through 4 clearly explain who and what is affected by this technical bulletin?
2. Does the guidance in paragraphs 5 through 19 clearly explain the difference between friable and nonfriable asbestos and the accounting issue being addressed?
3. Do you agree with the guidance in paragraphs 20 through 32 that federal entities should estimate both friable and nonfriable asbestos-related cleanup costs and recognize a liability and related expense for those costs that are probable and reasonably estimable, consistent with SFFAS 6, Chapter 4, Cleanup Costs, and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*?
4. Do you agree with the guidance in paragraphs 33 through 34.e regarding note disclosures required for both friable and nonfriable asbestos-related cleanup costs, consistent with SFFAS 6, Chapter 4, Cleanup Costs?
5. Do you agree with the guidance in paragraphs 35 through 39 regarding the treatment of both friable and nonfriable asbestos-related cleanup costs related to stewardship PP&E (Heritage Assets and Stewardship Land), consistent with SFFAS 6, Chapter 4, Cleanup Costs?

Introduction

Purpose

This technical bulletin is intended to clarify the responsibility of all federal entities to report liabilities and related expenses arising from friable and nonfriable asbestos-related cleanup costs.

Scope

This technical bulletin clarifies and elaborates on, but does not change, guidance previously provided in Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*, Chapter 4: Cleanup Costs; and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Materiality

The provisions of this technical bulletin need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

This technical bulletin is effective for reporting periods beginning after September 30, 2008. Earlier adoption is permitted.

Technical Guidance

Scope

1. **What entities are affected by this Technical Bulletin?**
2. This guidance affects all federal entities that own buildings, facilities, ships, or other tangible property, plant, and equipment (PP&E) that contains any form of asbestos (friable or nonfriable).
3. **What accounting practices are addressed in this Technical Bulletin?**
4. This guidance clarifies the responsibility of all federal entities to report liabilities and related expenses arising from asbestos-related cleanup costs for both friable and nonfriable asbestos-containing material.

Background

5. **What is asbestos?**
6. Asbestos is a widely used, mineral-based material that is resistant to heat and corrosive chemicals (see sample list of asbestos-containing materials at Appendix C: Asbestos-Containing Materials). Typically, asbestos appears as a whitish, fibrous material which may release fibers that range in texture from coarse to silky; however, airborne fibers that can cause health damage may be too small to see with the naked eye.
7. Asbestos is categorized as either friable (any material containing more than 1 percent asbestos that, when dry, can be crumbled, pulverized, or reduced to powder by hand pressure) or nonfriable (any material containing more than 1 percent asbestos that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure). Friable asbestos poses more of an immediate health risk than nonfriable, but both forms must be properly contained and disposed of during repair, renovation, demolition, or other disturbance of the property. The terms friable and nonfriable are used extensively in this document and are further defined in Appendix D: Definitions.
8. Exposure to asbestos can cause asbestosis (scarring of the lungs resulting in loss of lung function that often progresses to disability and to death); mesothelioma (cancer affecting the membranes lining the lungs and abdomen); lung cancer; and cancers of the esophagus, stomach, colon, and rectum.
9. The Clean Air Act (CAA) requires the U. S. Environmental Protection Agency (EPA) to develop and enforce regulations to protect the general public from exposure to airborne

contaminants that are known to be hazardous to human health. In accordance with Section 112 of the CAA, EPA established National Emissions Standards for Hazardous Air Pollutants (NESHAP) to protect the public. Asbestos was one of the first hazardous air pollutants regulated under Section 112. On March 31, 1971, EPA identified asbestos as a hazardous pollutant, and on April 6, 1973, EPA first promulgated the Asbestos NESHAP in 40 CFR Part 61.

10. What are cleanup costs?

11. Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. (SFFAS 6, par. 85)
12. Hazardous waste is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed. (SFFAS 6, par. 86)
13. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs. (SFFAS 6, par. 87)

14. What are asbestos-related cleanup costs?

15. Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing of (1) friable or nonfriable asbestos-containing materials from property, or (2) material and/or property that consists of friable or nonfriable asbestos-containing material at permanent or temporary closure or shutdown, repair and renovation, or other disturbance of associated PP&E.¹

16. Why is this guidance being issued?

17. In March 2006, representatives from two of the major CFO Act agencies informed FASAB staff that its independent public accountant (IPA) indicated that the agencies needed to reconsider their accounting for nonfriable asbestos for fiscal year 2006. The agencies noted that they had recognized an estimated liability for removal of friable asbestos posing an immediate health threat, but had not prepared an estimate for the future removal of nonfriable asbestos that does not pose an immediate health threat. The issue arose as a result of the Financial Accounting Standards Board (FASB) issuance of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47) in March 2005. Prior to FIN 47, organizations following FASB

¹ Temporary closure or shutdown would also include the scheduled closure or shutdown of PP&E in order to conduct cleanup activities.

standards did not consistently recognize liabilities for nonfriable asbestos. The agencies cited this inconsistency as well as the inconsistency among all federal agencies as the basis for not recognizing liabilities for nonfriable asbestos.

18. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 states that the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, FIN 47 requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.
19. The issuance of FIN 47 prompted the agencies' IPA to revisit the guidance in Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*, Chapter 4: Cleanup Costs; and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. FASAB staff conducted a conference call with several of the IPA's representatives, during which time the IPA's representatives communicated their concern that, under existing guidance in SFFAS 5, SFFAS 6, and TR 2, some federal entities are reporting a liability for all friable and nonfriable asbestos-related cleanup costs, but that is not a consistent practice across the federal government.

Federal Entities Should Estimate Both Friable and Nonfriable Asbestos-Related Cleanup Costs and Recognize a Liability and Related Expense for those Costs that are Probable and Reasonably Estimable

General PP&E

Cleanup Cost Estimates

20. Should federal entities estimate both friable and nonfriable asbestos-related cleanup costs?

21. Yes, federal entities should continue to follow the guidance contained in SFFAS 5, SFFAS 6, and TR 2 related to estimating obligations² for cleanup costs. Both friable and nonfriable asbestos-related cleanup costs, as defined above, shall be estimated when the associated PP&E is placed in service. The estimate shall be included as part of the "estimated total cleanup cost." (SFFAS 6 par. 94)
22. The estimate shall contemplate: (a) the cleanup plan, including level of restoration to be performed, current legal or regulatory requirements,³ and current technology; and (b) current cost which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. (SFFAS 6 par. 95)
23. Estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing. (SFFAS 6 par. 96)

Liabilities

24. Should federal entities recognize a liability for friable and nonfriable asbestos-related cleanup costs?

25. Yes, federal entities should recognize a liability for friable and nonfriable asbestos-related cleanup costs if the liability is deemed to be both probable⁴ and reasonably

² The term obligation is used in this bulletin with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

³ Laws and regulations approved as of the balance sheet date, regardless of the effective date of those laws and regulations, shall be considered.

⁴ Per SFFAS 5, par. 33, probable is defined as "that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic."

estimable. If the item is deemed to be probable, but not reasonably estimable for cost/benefit or other reasons, it should be disclosed in the notes to the financial statements.

26. Two implementation approaches have been provided for liabilities related to general PP&E in service at the date of implementation of this technical bulletin: (1) a liability shall be recognized for the portion of the estimated total cleanup cost that is attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the PP&E was placed in service. The remaining cost shall be recognized in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible. (2) In situations where the related PP&E has been in service for a substantial portion of its estimated useful life, management may also elect to recognize the estimated total cleanup cost as a liability upon implementation of this technical bulletin (this approach may only be used if costs are not intended to be recovered primarily through user charges). (SFFAS 6 pars. 104 and 97)

Expenses

27. Should federal entities recognize the related expenses for friable and nonfriable asbestos-related cleanup costs?

28. Yes, a portion of estimated total friable and nonfriable asbestos-related cleanup costs shall be recognized as expense during each period that general PP&E is in operation. This shall be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability. (SFFAS 6 par. 97)
29. Recognition of the expense and accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation, either permanently or temporarily. (SFFAS 6 par. 98)
30. As reestimates are made, the cumulative effect of changes in total estimated friable and nonfriable asbestos-related cleanup costs related to current and past operations shall be recognized as expense and the liability adjusted in the period of the change in estimate. (SFFAS 6 par. 99)
31. As friable and nonfriable asbestos-related cleanup costs are paid, payments shall be recognized as a reduction in the liability for friable and nonfriable asbestos-related cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. (SFFAS 6 par. 100)

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32. The offsetting charge for any liability for friable and nonfriable asbestos-related cleanup costs related to general PP&E in service at the date of implementation shall be made to net position of the entity. The amount of the adjustment shall be shown as a "change in accounting principle" in any statement of changes in net position that may be required. (SFFAS 6 par. 105 and SFFAS 21 pars. 12-13)

Note Disclosures

33. With regard to friable and nonfriable asbestos-related cleanup costs, what should federal entities disclose in the notes to the financial statements?

34. Entities should disclose the following:

- a. The sources (applicable laws and regulations) of friable and nonfriable asbestos-related cleanup requirements. (SFFAS 6 par. 107)
- b. The method for assigning estimated total friable and nonfriable asbestos-related cleanup costs to current operating periods (e.g., physical capacity versus passage of time). (SFFAS 6 par. 108)
- c. For friable and nonfriable asbestos-related cleanup costs associated with general PP&E, the unrecognized portion of estimated total friable and nonfriable asbestos-related cleanup costs (e.g., the estimated total friable and nonfriable asbestos-related cleanup costs less the cumulative amounts charged to expense at the balance sheet date). (SFFAS 6 par. 109)
- d. Material changes in total estimated friable and nonfriable asbestos-related cleanup costs due to changes in laws, technology, or plans shall be disclosed. In addition, the portion of the change in estimate that relates to prior period operations shall be disclosed. (SFFAS 6 par. 110)
- e. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations. (SFFAS 6 par. 111)

Stewardship PP&E (Heritage Assets and Stewardship Land)**35. How should federal entities report friable and nonfriable asbestos-related cleanup costs related to stewardship PP&E (Heritage Assets and Stewardship Land)?**

36. Consistent with the treatment of the acquisition cost of stewardship PP&E (i.e., expensing in the period placed in service), the total estimated friable and nonfriable asbestos-related cleanup costs shall be recognized as expense in the period that the stewardship asset is placed in service and a liability established. (SFFAS 6 par. 101)
37. The liability shall be adjusted when the estimated total friable and nonfriable asbestos-related cleanup costs are reestimated. Adjustments to the liability shall be recognized in expense as part of “changes in estimated cleanup costs from prior periods.” (SFFAS 6 par. 102)
38. As friable and nonfriable asbestos-related cleanup costs are paid, payments shall be recognized as a reduction in the liability for friable and nonfriable asbestos-related cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. (SFFAS 6 par. 103)
39. For stewardship PP&E that are in service at the date of implementation, the liability for friable and nonfriable asbestos-related cleanup costs shall be recognized and an adjustment made to the net position of the entity. The amount of the adjustment shall be shown as a “change in accounting principle” in any statement of changes in net position that may be required. The amounts involved shall be disclosed. (SFFAS 6 par. 106 and SFFAS 21 pars. 12-13)

The provisions of this bulletin need not be applied to immaterial items.

Appendix A: Basis for Conclusions

The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, "*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*." The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

40. In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 states that the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, FIN 47 requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.
41. FIN 47 states that "uncertainty about whether performance will be required does not defer the recognition of an asset retirement obligation because a legal obligation to stand ready to perform the retirement activities still exists, and it does not prevent the determination of a reasonable estimate of fair value because the only uncertainty is whether performance will be required."⁵ Application of FIN 47 clarifies that performance need not be probable and, therefore, will result in the recognition of significantly more asset retirement obligations than if the determination were based on probability of performance. FIN 47 is effective no later than the end of the fiscal year ending after December 15, 2005.
42. FIN 47, Appendix A, examples 3 and 4, contain specific examples that apply to cleanup of asbestos. Whether the facilities were acquired before or after the environmental regulations were put into place, the underlying requirement is the same. With regard to asbestos, Appendix A of FIN 47, states "Although the timing of the performance of the asset retirement activity is conditional on the factory undergoing major renovations or being demolished, existing regulations create a duty or responsibility for the entity to remove and dispose of asbestos in a special manner, and the obligating event occurs

⁵ FIN 47, par. 5a.

when the regulations are put in place [or the entity acquires the factory].” FIN 47 specifically states, “Although the entity may decide to abandon the factory and thereby defer settlement of the obligation for the foreseeable future, the ability to defer settlement does not relieve the entity of the obligation. The asbestos will eventually need to be removed and disposed of in a special manner, because no building will last forever.”

43. In March 2006, a representative from one of the major CFO Act agencies informed FASAB staff that its independent public accountant (IPA) requested that the agencies reconsider their accounting for nonfriable asbestos-related cleanup costs for fiscal year 2006. The agency contacted FASAB due to the extensive work that would be required to estimate its liability for nonfriable asbestos-related cleanup costs and the implications for other federal agencies. The agency estimates that it has approximately 3,300 – 6,000 facilities that contain nonfriable asbestos that are not already included as part of its material environmental disposal liability calculation.
44. FASAB staff was also contacted by a second major CFO Act agency regarding the same issue. This second agency, which utilizes the same IPA as the first agency, stated that it was planning to prepare an estimate of its fiscal year 2006 asbestos liability for friable and nonfriable asbestos-related cleanup costs, absent guidance from the FASAB to the contrary.
45. FASAB staff contacted the IPA directly and spoke with its representatives about the rationale for requesting the agencies to estimate a liability for nonfriable asbestos-related cleanup costs. The IPA stated that the agencies had previously cited the inconsistency in reporting of these liabilities by federal entities and organizations that followed FASB standards as the basis for not recognizing a liability for nonfriable asbestos-related cleanup costs. The IPA also stated that the issuance of FIN 47 prompted it to revisit this obligation that federal entities have for future cleanup of asbestos because FIN 47 eliminated some of the inconsistency that the agencies had cited and required entities that follow FASB standards to recognize a liability for nonfriable asbestos. In addition, the IPA questioned whether existing FASAB pronouncements⁶ would already require that both friable and nonfriable costs be recognized in the financial statements. The IPA also stated that they believe there is a divergence in practice across the federal government, with some agencies reporting a liability for both friable and nonfriable asbestos-related cleanup costs in past years, while others have recognized only liabilities for friable cleanup costs.
46. The agencies and the IPA requested that the FASAB reconfirm existing guidance or issue new guidance on whether federal entities are required to recognize a liability for future cleanup of nonfriable asbestos.
47. Accounting for cleanup costs is specifically addressed in SFFAS 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, as well as Technical Release (TR) 2,

⁶ SFFAS 5, SFFAS 6, and TR 2

“Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.” The standards for cleanup costs in SFFAS 6 supplement the accounting requirements for liabilities in SFFAS 5, *Accounting for Liabilities of the Federal Government*. SFFAS 5 requires that liabilities shall be recognized when three conditions are met: a past transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. SFFAS 6, Chapter 4, requires that cleanup costs be estimated and charged to expense during each period that general property, plant, and equipment is in operation. TR 2 is intended to assist federal entities in determining probable and reasonably estimable liabilities related to their environmental cleanup responsibilities.

48. SFFAS 6 addresses cleanup costs from federal operations known to result in hazardous waste. SFFAS 6 provides guidance when cleanup occurs at the end of the useful life of the PP&E or at regular intervals (scheduled phase cleanup) during that life. SFFAS 5 applies to all environmental liabilities not specifically covered in SFFAS 6, including cleanup resulting from accidents or where cleanup is an ongoing part of operations. TR 2 offers guidance on determining probable and reasonably estimable for environmental liabilities. The estimation of a liability for friable and nonfriable asbestos-related cleanup costs is not explicitly addressed by SFFAS 5, SFFAS 6, or TR 2, but staff believes it is covered under the requirements of these pronouncements.
49. One key notion contained in FIN 47 that is not stated as explicitly in either SFFAS 6 or TR 2 is the notion that “no building will last forever”; it would be hard to support a claim that the federal government will be able to maintain a building forever without having to eventually cleanup the asbestos contained therein. The federal government is subject to the same laws and regulations regarding control and abatement of air pollution as nongovernmental entities.⁷ Therefore, if one were to agree that the notion of probability of settlement applies to infinity rather than the foreseeable future, it is probable (more likely than not) that the federal government will be required to meet any legal obligations at some point in the future for the cleanup of friable and nonfriable asbestos in all of its facilities, whether they are sold, renovated, or demolished or collapse. Based on SFFAS 5 and 6 and TR 2, the question then becomes whether the federal liability for cleanup of friable and nonfriable asbestos is reasonably estimable.
50. TR 2, Section 2, provides guidance on determining “reasonably estimable” environmental liabilities. This guidance recommends completion of a remedial investigation/feasibility study upon which to base an estimate and/or experience with similar site and/or conditions. Estimated costs should be based on the cleanup plan, assuming current technology and current cost. These costs can include the costs to remove, contain, and/or dispose of the hazardous waste requiring cleanup. The SFFAS 5 measurement attribute – settlement cost (best represented by the current cost to cleanup) – differs significantly from the FIN 47 measurement attribute – fair value. Fair value incorporates the effects of uncertainty. Staff believes that settlement cost is more

⁷ Toxic Substances Control Act (15 USC 2619) and Clean Air Act (42 USC 7418)

difficult to measure since it does not allow for different outcomes, each of which may be just as likely as the others.

51. In the case of estimating friable and nonfriable asbestos-related cleanup costs in federal facilities, significant consideration needs to be given to the availability of relevant and reliable data upon which to base an estimate, the cost/benefit considerations of providing such data, the needs of the report users, the objective of reporting such information, and the materiality involved. The costs of determining a liability in the current period may outweigh the benefits if little value is added to the financial report, while a well-written, less costly note disclosure could achieve the same objective. In addition, estimating settlement value – which does not adjust for uncertainty in the same manner as fair value – may result in routine misstatements of liabilities.
52. Uncertainty increases the costs of financial reporting, particularly the costs of measurement and recognition. Some items that meet the definitions of assets or liabilities may be recognized as expenses or revenues or remain unrecognized because a cost–benefit analysis indicates that their recognition is not useful enough to justify the necessary time and effort. It may be possible to make the information more reliable in the face of uncertainty by exerting greater effort or spending more money, but it also may not be worth the added cost.
53. The effective date of this Technical Bulletin – for reporting periods beginning after September 30, 2008 – is established as such to allow federal entities the time to complete remedial investigation/feasibility studies or take similar steps to determine the cost/benefit of determining a liability versus a note disclosure. Earlier adoption is permitted.
54. A draft concepts statement, *Definition and Recognition of Elements of Accrual-Basis Financial Statements*, is currently under consideration by the Board and is planned to be issued as an exposure draft in early June 2006. This concepts statement proposes new definitions of five elements of accrual-basis financial statements – asset, liability, revenue, expense, and net position. These new definitions, if issued as final, would be used as the building blocks for new standards issued by the Board in the future. However, since the concepts statement will go through extensive due process before being finalized and subsequently used to develop new standards, this technical bulletin is being issued under the existing standards for the federal government. If changes are made to the cleanup standards in the future, the consideration of asbestos-related cleanup costs would be incorporated into the new standards accordingly.

Appendix B: Illustration of Asbestos-Related Cleanup Costs

This appendix illustrates one method of complying with the guidance proposed in this technical bulletin. The examples shown in this appendix are for illustrative purposes only. Applying this proposed technical bulletin may require consideration of estimated cost components other than those shown here.

Example of Accounting for Asbestos-Related Cleanup Costs

55. A federal facility was placed in operation in 1970. No recognition of nonfriable asbestos-related cleanup cost was made under past accounting policy. At the end of 2006, the entity adopts the accounting policies presented in this proposed technical bulletin.

The following assumptions apply:

- The facility has an expected useful life of 50 years;
- The containment and removal of asbestos is required by state, local and Federal laws when the site is renovated, repaired, permanently or temporarily closed down, or otherwise disturbed; and,
- 2006 cost estimates are based on current cost for 2006.

RECOGNITION OF LIABILITY AMOUNTS FOR 2006 (Dollars in thousands)

Estimated Total Cleanup Cost Based on Current Cost in 2006

Scenario A

The federal entity estimates the following total cleanup costs related to the containment and removal of asbestos in its facilities:

Inspection	\$ 1,000
Sampling and Testing	10,000
Feasibility Study	5,000
Containment of asbestos during removal	12,000
Disposal of asbestos	<u>20,000</u>
TOTAL ESTIMATED CLEANUP COST	\$48,000

Calculation of Liability Amount to be Recognized upon Implementation

At the end of 2006, the estimated total cleanup costs were \$48,000,000. The following calculations show the amounts that should have been recognized at the end of 2006 if the proposed technical bulletin had been in effect since the facility began operation on October 1, 1970:

$(a \times b/c) - d = I$ where,

a = total cleanup cost estimated as of end of period

b = cumulative capacity used at end of period⁸

c = total estimated capacity⁹

d = amount previously recognized as expense – beginning of period

I = liability to be recognized at the end of 2006

$(\$48,000 \times 36/50) - \$0 = I$

$\$48,000 \times .72 - \$0 = I$

$\$34,560 = I$

Dr. Net Position	\$34,560
Cr. Cleanup Liability	\$34,560

To recognize estimated cleanup liability.

SUMMARY:

Financial Statement	2006
Change in Accounting Principle	\$34,560
Liability	\$34,560

⁸ If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

⁹ If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

Calculation of Annual Expense and Accrued Liability Amounts

In years 2007 through 2020, the following calculation shows the amount to be recognized annually:

$$\begin{aligned}(a \times b/c) &= I \\ (\$48,000 \times 1/50) &= I \\ (\$48,000 \times .02) &= I \\ \$960 &= I\end{aligned}$$

Dr. Cleanup Expense	\$960
Cr. Cleanup Liability	\$960

To recognize estimated cleanup liability.

If the facility is renovated prior to 2020 (estimated end of useful life), the difference in the recognized liability and the total amount of the cleanup costs would be recognized as expense in the period of cleanup.

Scenario B

The federal entity does not have the current experience or technology to reliably estimate the extent of asbestos contained within its facilities or how much it will cost to contain and dispose of the asbestos, or the agency determines that the cost of doing so far exceeds the benefit of reporting such information.

No liability or expense is recognized in the financial statements until such time that the cleanup costs can be reasonably estimated. The federal entity should include a footnote disclosure indicating the presence of asbestos in its facilities and the inability to reasonably estimate an amount of the total cleanup costs.

Appendix C: Asbestos-Containing Materials

Note: The following list does not include every product/material that may contain asbestos. It is intended as a general guide to show which types of materials may contain asbestos.

Sample List of Potential Asbestos-Containing Materials

Cement Pipes	Elevator Brake Shoes
Cement Wallboard	HVAC Duct Insulation
Cement Siding	Boiler Insulation
Asphalt Floor Tile	Breaching Insulation
Vinyl Floor Tile	Ductwork Flexible Fabric Connections
Vinyl Sheet Flooring	Cooling Towers
Flooring Backing	Pipe Insulation (corrugated air-cell, block, etc.)
Acoustical Plaster	Heating and Electrical Ducts
Decorative Plaster	Electrical Panel Partitions
Textured Paints/Coatings	Electrical Cloth
Ceiling Tiles and Lay-in Panels	Electric Wiring Insulation
Spray-Applied Insulation	Chalkboards
Blown-in Insulation	Roofing Shingles
Fireproofing Materials	Roofing Felt
Taping Compounds (thermal)	Base Flashing
Packing Materials (for wall/floor penetrations)	Thermal Paper Products
High Temperature Gaskets	Fire Doors
Laboratory Hoods/Table Tops	Caulking/Putties
Laboratory Gloves	Adhesives
Fire Blankets	Wallboard
Fire Curtains	Joint Compounds
Elevator Equipment Panels	Vinyl Wall Coverings
Construction Mastics (floor tile, carpet, ceiling tile, etc.)	Spackling Compounds

Source: Environmental Protection Agency at <http://www.epa.gov/Region06/6pd/asbestos/asbmatl.htm>.

Appendix D: Definitions

Category I nonfriable asbestos-containing material (ACM) – refers to asbestos-containing packings, gaskets, resilient floor covering, and asphalt roofing products containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy. (40 CFR § 61.141)

Category II nonfriable ACM – refers to any material, excluding Category I nonfriable ACM, containing more than 1 percent asbestos as determined using the methods specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure. (40 CFR § 61.141)

Friable asbestos material – refers to material containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy, that, when dry, can be crumbled, pulverized, or reduced to powder by hand pressure. If the asbestos content is less than 10 percent as determined by a method other than point counting by polarized light microscopy (PLM), the asbestos content is verified by point counting using PLM. (40 CFR § 61.141)

Nonfriable asbestos-containing material (ACM) – refers to any material containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy, that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure. (40 CFR § 61.141)

Regulated asbestos-containing material (RACM) – refers to (a) Friable asbestos material, (b) Category I nonfriable ACM that has become friable, (c) Category I nonfriable ACM that will be or has been subjected to sanding, grinding, cutting, or abrading, or (d) Category II nonfriable ACM that has a high probability of becoming or has become crumbled, pulverized, or reduced to powder by the forces expected to act on the material in the course of demolition or renovation operations regulated by this subpart. (40 CFR § 61.141)